

Message Text

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SUBJ: OECD EXAMINATION OF FOREIGN INVESTMENT POLICIES AND
PRACTICES -- FRANCE

REF: STATE 118847

1. SUMMARY. FRENCH PROGRAM OF " OVERT INCENTIVE " FOR INDUSTRIAL INVESTMENTS IS DESIGNED TO ENCOURAGE ECONOMIC DEVELOPMENT OF THOSE AREAS OF FRANCE THAT ARE REGARDED AS " DEPRESSED," PARTICULARLY BY CREATING NEW EMPLOYMENT IN SUCH AREAS. THIS TELEGRAM CONTAINS INFORMATION ON TWO RECENT US INVESTMENTS IN FRANCE (FORD TRANSMISSION PLANT IN BORDEAUX AND GENERAL FOODS CANDY PLANT IN REIMS) AS CASE EXAMPLES OF HOW FRENCH " OVERT INCENTIVES " OPERATE. MAIN ADMINISTRATIVE TOOL USED BY FRENCH AUTHORITIES TO ELICIT FROM PROSPECTIVE FOREIGN INVESTORS PROJECTS WITH EXPORT PROMOTION OR IMPORT SUBSTITUTION CONTENT IS REQUIREMENT THAT ALL FOREIGN DIRECT INVESTMENTS IN FRANCE RECEIVE PRIOR APPROVAL OF FRENCH AUTHORITIES. END SUMMARY.

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2. FRENCH GOVT MAINTAINS PROGRAM OF " OVERT INCENTIVES " FOR INDUSTRIAL INVESTMENTS UNDERTAKEN IN AREAS OF FRANCE THAT ARE CLASSIFIED AS " DEPRESSED AREAS." STATED PURPOSE OF THESE INCENTIVES-- SUBSIDIES, GOVT LOANS, TAX HOLIDAYS, ACCELERATED DEPRECI-

ATION, AND FAVORABLE TERMS FOR ACQUISITION OF PLANT SITES-- IS TO INCREASE EMPLOYMENT IN LOCALITIES OF INVESTMENTS. THIS IS THE CRITERION FRENCH AUTHORITIES APPLY WHEN PASSING ON APPLICATIONS FOR BENEFITS UNDER REGIONAL DEVELOPMENT PROGRAM. WE RECOGNIZE, OF COURSE, THAT INVESTMENTS BENEFITING FROM SUCH INCENTIVES MAY AFFECT STRUCTURE OF INTERNATIONAL PRODUCTION, PARTICULARLY WHEN UNDERTAKEN BY LARGE MULTINATIONAL FIRMS, BUT WE BELIEVE IT WOULD BE EXCEEDINGLY DIFFICULT TO ESTABLISH AND DOCUMENT CAUSE- AND- EFFECT RELATIONSHIP BETWEEN INCENTIVES AND EXPORT PROMOTION OR IMPORT SUBSTITUTION.

3. RE PARA 2 REFTEL, FOLLOWING ARE TWO RECENT CASES ON WHICH US INVESTORS -- FORD AND GENERAL FOODS -- HAVE PROVIDED EMBASSY INFORMATION AS TO ROLE OF FRENCH " OVERT INCENTIVES" IN THEIR PROJECTS.

I. FORD: (A) AUTOMATIC TRANSMISSION PLANT AT BLANQUE- FORT NEAR BORDEAUX, JUST COMPLETED.
(B) COST APPROXIMATELY \$130 MILLION, OF WHICH 50 PERCENT LOCALLY FINANCED AND 50 PERCENT FINANCED IN DOLLARS.
(C) INCENTIVES EMPLOYED:

1) REGIONAL DEVELOPMENT GRANT - CASH PAYMENT: BORDEAUX LOCATION ENTITLED FORD TO MAXIMUM RATE, WHICH IS 25 PERCENT OF TOTAL INVESTMENT LESS TAXES BUT LIMITED TO A CEILING OF 13,000 FRANCS PER JOB CREATED AT TIME FORD NEGOTIATED WITH GOF. FORD ARGUED THAT BECAUSE OF HIGH LEVEL OF AUTOMATION, PER- JOB- CREATED CEILING TOO LOW AND WAS ABLE TO OBTAIN SUBSTANTIAL MODIFICATION. TOTAL GRANT FINALLY CAME TO \$9 MILLION.

2) EXEMPTION FROM BUSINESS TAX (PATENTE) FOR 5 YEARS, WHICH FORD CALCULATES AS SAVINGS OF \$2.3 MILLION PER YEAR.

3) SUBSIDY OF UP TO 50 PERCENT FOR EMPLOYEE TRAINING AND EQUIPMENT AND MATERIALS CONNECTED WITH SUCH TRAINING BUT LIMITED OFFICIAL USE
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LIMITED BY CERTAIN GOF DEFINITIONS OF TRAINING AND OTHER RESTRICTIVE CONDITIONS. (VALUE OF SUBSIDY NOT DISCLOSED.)

4) ACCELERATED DEPRECIATION OF CONSTRUCTION COSTS BECAUSE OF BORDEAUX LOCATION, WHICH ALLOWS FORD TO DEPRECIATE 25 PERCENT OF COSTS OF CONSTRUCTION DURING FIRST YEAR PLANT IS IN OPERATION IN ADDITION TO NORMAL 12-1/2 PERCENT ALLOWED.

5) CITY OF BORDEAUX, WHICH OWNED THE PLANT SITE, SOLD LAND TO FORD AT FAVORABLE TERMS.

(E) FORD TELLS EMBASSY INCENTIVES WERE NOT RPT NOT A MAJOR FACTOR IN DECISION TO BUILD A PLANT IN FRANCE, BUT WERE INSTRUMENTAL IN

DECISION TO GO TO BORDEAUX RATHER THAN ANOTHER LOCATION IN FRANCE WHERE NO INVESTMENT INCENTIVES WOULD HAVE BEEN AVAILABLE.

(E) FORD SAYS INVESTMENT INCENTIVES HAD NO EFFECT ON DECISION TO EXPORT FROM BORDEAUX, AS ANY AUTOMATIC TRANSMISSION PLANT THAT FORD BUILT WOULD HAVE BEEN DESIGNED TO SUPPLY FORD ASSEMBLY PLANTS WORLD- WIDE. BEING AN OCEAN PORT, BORDEAUX WAS PARTICULARLY ATTRACTIVE FOR EXPORT.

II. GENERAL FOODS: (A) PLANT AT REIMS TO PRODUCE VARIOUS TYPES OF CANDY, INAUGURATED LAST MONTH. EMPLOYS 200 WORKERS.

(B) COST 45 MILLION FRANCS, OR ABOUT \$10 MILLION, WHICH WAS ENTIRELY LOCALLY FINANCED.

(C) ONLY INCENTIVE GENERAL FOODS RECEIVED WAS ACCELERATED DEPRECIATION OF CONSTRUCTION AND EQUIPMENT COSTS ARRANGED BY REIMS CITY AUTHORITIES. CITY OF REIMS ALSO MADE LAND IN ITS INDUSTRIAL PARK AVAILABLE ON FAVORABLE TERMS.

(D) GENERAL FOODS SAYS INCENTIVES WERE NOT FACTOR IN DECISION TO BUILD CANDY PLANT IN FRANCE, AND THAT MARKETING FACTORS PREVAILED IN THIS DECISION.

(E) IT IS EXPECTED THAT IN NEAR FUTURE SOME OF THE NEW PLANT'S PRODUCTION WILL BE EXPORTED. HOWEVER, ACCORDING TO GENERAL FOODS, NO RELATIONSHIP CAN BE ESTABLISHED BETWEEN THIS FACT AND LIMITED INCENTIVES INDICATED ABOVE.

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4. RE PARA 2(F) REFTEL, MOST RECENT STATISTICS AVAILABLE ON OPERATION OF FRENCH REGIONAL DEVELOPMENT PROGRAM ARE AS FOLLOWS:

(A) REGIONAL DEVELOPMENT GRANTS: 356 CASES APPROVED IN 1971 FOR TOTAL OF 318 MILLION FRANCS, PROVIDING FOR CREATION OF ABOUT 45,000 NEW JOBS. IN FIRST HALF 1972, CASES APPROVED TOTAL 195, REPRESENTING 127 MILLION FRANCS AND 15,000 NEW JOBS.

(B) TAX HOLIDAYS: (1) EXEMPTION FROM LOCAL BUSINESS TAX (PATENTE): 771 CASES APPROVED IN 1970 AND 325 IN 1971.

(1) ACCELERATED DEPRECIATION: 246 CASES APPROVED IN 1970 AND 263 IN 1971. (3) REDUCTION OF REGISTRATION TAX ON TRANSFER OF REAL PROPERTY (FROM NORMAL RATE OF 16 PERCENT TO 4.2 PERCENT); 293 IN 1970 AND 325 IN 1971.

UNFORTUNATELY THERE ARE NO FIGURES ON TOTAL VALUE OF INVESTMENTS COVERED BY ABOVE GRANTS AND TAX ADVANTAGES, AND EMBASSY KNOWS OF NO WAY BY WHICH MEANINGFUL ESTIMATE COULD BE MADE.

5. RE PARA 3 REFTEL, PRINCIPAL ADMINISTRATIVE TOOL USED BY FRENCH AUTHORITIES IN ARMTWISTING OPERATIONS AS REGARDS EXPORT PROMOTION, IMPORT SUBSTITUTION, ETC., IS REQUIREMENT THAT ALL FOREIGN DIRECT INVESTMENTS IN FRANCE BE APPROVED BY FRENCH AUTHOR-

ITIES. THIS PROCESS IS DESCRIBED IN PARIS 21186 OF NOV 7, 1972, WHICH ALSO CONTAINS THREE CASE EXAMPLES OF HOW DIRECT INVESTMENT CONTROLS HAVE BEEN APPLIED IN THIS REGARD. RE FORD CASE, WHICH IS ONE OF THE EXAMPLES CONTAINED IN PARIS 21186, AND WHICH IS ALSO DISCUSSED IN PARA 3 ABOVE AS EXAMPLE OF AN INVESTMENT BENEFITING FROM FRENCH "OVERT INCENTIVES," THERE IS NO DOUBT THAT EXPORT FEATURE OF FORD DEAL MADE IT PARTICULARLY ATTRACTIVE TO FRENCH AUTHORITIES, AND THUS ENCOURAGED THEM GIVE FORD RED CARPET TREATMENT. AT SAME TIME, FORD COULD NOT HAVE BENEFITED FROM "OVERT INCENTIVES" HAD THEY WANTED TO LOCATE IN AREA OF FRANCE WHERE SUCH INCENTIVES WERE NOT AVAILABLE.

6. RE PARA 4 REFTTEL, EMBASSY OBTAINED INFORMATION RE FORD AND GENERAL FOODS PROJECTS DIRECTLY FROM REPRESENTATIVES IN FRANCE OF THOSE TWO COMPANIES. FORD PROVIDED ITS INFORMATION ON "CONFIDENTIAL" BASIS, AND IT SHOULD NOT BE RELEASED OUTSIDE US GOVT CIRCLES. GENERAL FOODS PUT NO SUCH RESTRICTION ON ITS INFORMATION, AND NAME OF COMPANY COULD THUS BE USED IF NECESSARY.

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